

Component Unit Year End Reporting Memorandum – FY 2007
Attachment CU13
GASBS No. 42, Impairment of Capital Assets and Insurance Recoveries

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|------------------------------|--|----------------|-----------------------|---------------------|---------------------|---------------------|--|--------------|-----------------------|------------------------------|---------------------|---------------------|--|
| Purpose | The purpose of <u>GASBS 42</u> is to provide reporting guidance for the following: impairment of capital assets, and all insurance recoveries (not just recoveries for impaired capital assets). | | | | | | | | | | | | |
| Due date | September 25, 2007 | | | | | | | | | | | | |
| Certification Tab | The Certification tab is new for FY 2007, and it requires all preparers and reviewers to type their name on this form. Please note that there should be a segregation of duties; therefore, the preparer and the reviewer should not be the same individual for any tab. By typing a name, the individual is certifying that all tabs of this attachment have been reviewed, the information is both complete and accurate, and the preparer and reviewer were not the same individual for any tab. | | | | | | | | | | | | |
| Applicable entities. | <p>All component units.</p> <p>Exemption: The Library of Virginia Foundation does not need to submit this attachment since the Foundation follows FASB 117.</p> | | | | | | | | | | | | |
| Questions? | <p>Please direct all questions regarding this attachment to:</p> <table><tr><td>Bobby Eddleton</td><td>Phone: (804) 225-2257</td></tr><tr><td>Assistant Director,</td><td>FAX: (804) 225-2430</td></tr><tr><td>Financial Reporting</td><td>E-mail: Bobby.eddleton@doa.virginia.gov</td></tr><tr><td>Andrew Short</td><td>Phone: (804) 225-2002</td></tr><tr><td>Financial Reporting Analyst,</td><td>FAX: (804) 225-2430</td></tr><tr><td>Financial Reporting</td><td>E-mail: Andrew.short@doa.virginia.gov</td></tr></table> <p>Department of Accounts P. O. Box 1971 Richmond, VA 23218-1971</p> | Bobby Eddleton | Phone: (804) 225-2257 | Assistant Director, | FAX: (804) 225-2430 | Financial Reporting | E-mail: Bobby.eddleton@doa.virginia.gov | Andrew Short | Phone: (804) 225-2002 | Financial Reporting Analyst, | FAX: (804) 225-2430 | Financial Reporting | E-mail: Andrew.short@doa.virginia.gov |
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**Submission
requirements**

Contact DOA if the entity has any problems with the files.

After downloading the file, rename the spreadsheet file using the entity's acronym followed by AttCU13. For example, the Virginia Resources Authority should rename its Attachment CU13.xls file as VRAAttCU13.xls.

Submit the Excel spreadsheet electronically to finrept-cu@doa.virginia.gov.

Copy APA via e-mail to APAFinRept@apa.virginia.gov.

Do not submit paper copies of the Excel attachment.

**Attachment
revisions**

If attachment revisions are made subsequent to DOA acknowledgement of receipt and acceptance of the original attachment submission, **resubmit the revised attachment AND complete the [Revision Control Log Tab](#) in the attachment excel file.**

Enter the revision date, applicable excel file tab name, row number and column letter revised, and the previous and revised information. Document text changes and numerical changes. Only enter changes for amounts actually keyed. For example, if a non-keyed, calculated total changes as a result of the revision, this does not need to be documented on the Revision Control Log.

If the attachment is revised more than once, do not delete control log revision information from the previous revision. Enter the new revision date and the additional revisions in the rows following the initial revision rows. This log should document all revisions from the initial attachment submission.

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**Overview of
Requirements**

Financial Statement Template Reporting:

- **Recognize Impairment Loss: Capital assets permanently impaired during fiscal year 2007:** The capital asset must be written down by the impairment loss amount. Any insurance recoveries recognized during the year for the impaired capital asset must be netted with the impairment loss. These losses should be reported as program expense-loss on sale / disposal / impairment of capital assets, special item, or extraordinary item on Attachment CU10 – Conversion to Statement of Activities.
- **Restate Beginning Net Assets: Capital assets permanently impaired in prior years and not written down:** Beginning net assets should be restated for capital assets as of year-end that were permanently impaired in prior years and had not been written down by the impairment loss amount.
- **Insurance Recoveries:** For any insurance recoveries that are for prior year capital asset impairments and / or all other reasons (i.e. theft, embezzlement of cash, etc.), report these recoveries as program revenue-operating grants & contributions, program revenue – capital grants & contributions, or an extraordinary item on Attachment CU10 – Conversion to Statement of Activities.

Footnote Disclosures:

- **Impairment Losses:** The footnotes must include a general description, the amount, and the financial statement template line item.
- **Idle Permanently and / or Temporarily Impaired Capital Assets:** The carrying amount of temporarily and / or permanently impaired capital assets that are idle as of year-end must be disclosed.
- **All Insurance Recoveries:** The footnotes must include the amount and financial statement template line item for **all** insurance recoveries (not just for impaired capital assets).

Other Considerations:

- For any capital assets that do not meet the impairment test, the remaining useful life and salvage value may need to be reevaluated and changed on a prospective basis.

Refer to **GASBS No. 42** for additional guidance.

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Instructions:
Part 1

This part is to identify potential impairments as follows:

A) **Possible Impairment of Capital Assets:** As of June 30, 2007, did the entity have an event* or change in circumstances* that may indicate an impairment of a capital asset as described in **GASBS No. 42**? If yes, provide a description, month / year it took place, the possible impaired capital assets, and then go to B. If no, go to Part 3.

***Note:** This must be a prominent event or circumstance that is conspicuous or known to the entity. It is expected to have been discussed by the management, or media. Common indicators of impairment include the following:

- Physical damage (i.e. fire, flood)
- Enactment or approval of laws / regulations or other changes in environmental factors
- Technological development or evidence of obsolescence
- Change in the manner or expected duration of a capital asset
- Construction stoppages (i.e. lack of funding)

B) **Impairment Test:** If yes to A, is the decline in service utility of the capital asset significant **and** unexpected? If yes, go to C. If no, go to Part 3.

Note: If this test indicates an impairment has not occurred, the estimated useful life and salvage value may need to be reevaluated and changed. This should be accounted for on a prospective basis.

C) **Permanent Impairment:** If yes to A and B, is the impairment considered permanent? If yes, go to D. If no, go to Part 2.

Note: Generally, an impairment should be considered permanent; however, in some cases it may be considered temporary. If it is considered temporary, the capital asset should not be written down. See **GASBS No. 42** for additional guidance.

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Instructions: Part 1 (continued)

D) Financial Statement Reporting & Footnote Disclosure: If yes to A, B, and C, has the impairment loss and related insurance recoveries (if applicable) been properly reported on the financial statement in accordance with **GASBS No. 42**? If **no**, provide an explanation. If **yes**, provide the impairment loss, insurance recoveries, and financial statement line item this activity is reported on.

Notes: For impaired capital assets that will continue to be used by the entity, the impairment loss that should be written off should be measured by one of the following methods: restoration cost approach, service units approach, or deflated depreciation replacement cost approach. For impaired capital assets that will no longer be used by the entity or capital assets impaired from construction stoppage, they should be reported at the lower of carrying value or fair value.

Loss on capital assets that became permanently impaired during fiscal year 2007 must be reported on Attachment CU10 – Conversion to Statement of Assets as program expenses—loss on sale / disposal / impairment of capital assets, extraordinary item, or special item. If the impairment loss took place in prior years and not previously recognized, beginning net assets should be restated. Use professional judgment to determine the appropriate financial statement line item.

Also, Per **GASBS No. 42** paragraph 21, if insurance recoveries are in the same year as the impairment loss, the impairment loss should be reported net of the associated insurance recovery. Also, per **GASBS No. 42** paragraph 17 - footnote 6, this guidance also applies to insured impairments that result in an accounting gain.

**Part 2, Idle
Capital Assets –
Temporarily or
Permanently
Impaired**

Any permanently and / or temporarily impaired capital assets that are idle as of year-end must be disclosed. Provide the carrying amount of any permanently and / or temporarily impaired capital assets as of year-end.

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**Part 3, Other
Insurance
Recoveries**

For any insurance recoveries that are not reported in Part 1 D, provide the amount and financial statement template line item. Also, provide a description.

Note: This includes current year insurance recoveries for capital assets impaired in prior years. It also includes all other insurance recoveries. (i.e. recoveries for embezzlement of cash, theft). Insurance recoveries should be reported on Attachment CU10 – Conversion to Statement of Activities as program revenue-operating grants & contributions, program revenue-capital grants & contributions, and / or extraordinary item. Use professional judgment to determine the appropriate line item.